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SENSITIVE

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SUBJECT: TURKISH TEXTILE SECTOR RENEWS CALL FOR  
PREFERENTIAL TRADE AGREEMENT

This message was coordinated with Embassy Ankara. Sensitive but unclassified -- not for internet distribution.

1. (SBU) Summary: In meetings with General Scowcroft's visiting American Turkish Council Delegation (ATC), Turkish textile representatives renewed their call for a preferential trade agreement to enable application of lower U.S. customs duties to Turkish textile exports to the U.S. The industry has moved away from a Qualified Industrial Zone (QIZ) approach, pushing instead a model where Turkish manufacturers would use U.S. inputs and then re-export the finished product back to the United States. At an October 18 IKTIB-sponsored dinner in Istanbul, Trade Minister Tuzmen also pushed for exploration of new approaches with the U.S. to encourage increased bilateral trade, suggesting a "free trade agreement" as one possibility. End Summary.

2. (SBU) Customs Concessions: In their meetings with General Scowcroft's delegation October 18, as in earlier sessions with Consulate and Embassy officers, Turkish textile industry representatives reiterated the need for either a free trade or a preferential trade agreement with the United States to counteract the "unfair" competition they see coming from China and other low-wage textile producing countries. Rusen Cetin, a senior executive at the Istanbul Textile and Apparel Exporters' Association (IKTIB), estimates that his business alone has lost USD 8 million this year as a result of the new global textile trade rules, which have led to dramatic increases in Chinese textile exports to the U.S. and decreases for many Turkish producers. IKTIB officials have pushed for a model where they would utilize U.S. inputs (perhaps 15-20 percent of final value-added), do final assembly here in Turkey, and then re-export the finished product to the United States. Istanbul Textile and Apparel Association (IKTIB) President Suleyman Orakcioglu told Econoff that the association has consulted extensively with U.S. industry on this proposal, and that the U.S. side is supportive.

3. (U) Customs Burden: In public remarks to the ATC delegation on October 18 at an IKTIB-hosted dinner in its honor, Orakcioglu noted that Turkey pays USD 255 million in customs duties on its USD 5.5 billion in exports to the U.S.. (Note: both U.S. and Turkish trade figures show an export level of USD 4.8-4.9 billion. End Note.) USD 235 million of that total, he said, is levied on textiles and apparel, given prevailing rates of up to 33 percent. He compared that rate to Turkey's own customs duties of 11 percent, and argued that without trade concessions Turkey's textile industry "will be finished." If the European Union and Mexico can reach agreement on lowering customs rates, he concluded, there shouldn't be a problem for the U.S. and Turkey to do likewise.

4. (U) Free Trade: In a speech to the same IKTIB dinner, Trade Minister Kursad Tuzmen reiterated the difficulties that Turkish exports face as a result of the 600 percent increase in Chinese exports to the U.S. "There are many things that can be done with the U.S. from the perspective of trade," he said, adding that "even a free trade agreement" is possible. (Note: The minister frequently makes such statements, despite knowing that such an agreement is inconsistent with Turkey's customs union with the EU. End Note.)

5. (SBU) Comment: We continue to stress in our contacts with industry the need for it to look beyond preferential or free trade agreements and to focus instead on moving up the production chain to higher value-added products where Turkish industry can find its niche. As IKTIB's continued agitation for a preferential agreement reflects, however, that effort has had little success. We are not in a position to assess the extent to which IKTIB's statements accurately reflect the status of its discussion with U.S. industry, but forward them to alert Washington agencies to an issue that may well emerge in next month's TIFA consultations. For their part, Trade officials in Ankara continue to note that the Turkey-EU Customs Union precludes the "dream" of a U.S.-Turkey FTA. End Comment.

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